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CITY OF TORONTO

A REVIEW OF THE

PROPOSED ECONOMIC DEVELOPMENT CORPORATION

May 1984

A report from

Woods Gordon

Management Consultants

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

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May 23, 1984

CONFIDENTIAL

Mr. Stephen G. McLaughlin
Commissioner
Planning and Development Department
City of Toronto
20th Floor, East Tower
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Toronto, Ontario
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Dear Mr. McLaughlin:

We are pleased to present our final report on our overview evaluation of the proposed Economic Development Corporation and our thoughts on some possible future directions you may wish to consider.

We feel that the City's proposals are on the right track and we are supportive of a new, City-led initiative in the field of industrial redevelopment.

The initiative is a good first step. Alone, however, it will not solve the problem; it represents one component in a package of measures designed to encourage the prosperity of the City of Toronto. As Mayor Eggleton and City Council have already recognized, other measures are necessary and should include some changes in land-use designation, action to reduce industrial taxes and an effort to improve the City's image as a place which encourages economic growth.

Our work was assisted by advice from your staff who also provided a considerable amount of the background materials and analysis used in this report. Other City officials, many businessmen and other government officials also gave generously of their time. We are indebted to them all, but would like to make it clear that the views expressed in this report are our own.

Yours truly,

Woods Gordon

Woods Gordon

c.c. Richard Blanchard
Michael Williams
Jane Londerville

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1. OVERALL CONCLUSIONS AND RECOMMENDATIONS

The concept of a "City Economic Development Corporation" to pursue industrial redevelopment is new, being first outined in Mayor Eggleton's report of September 1983 entitled, A Jobs and Economic Development Strategy for Toronto. This report also outlined a variety of complementary measures designed to ease structural unemployment problems in the City of Toronto.

City Council asked Woods Gordon to assess the proposed Corporation and to comment on appropriate activities for it.

We believe that the Mayor's concept, if appropriately applied, has merit and can help save/create some new jobs. Furthermore, without action by the City, some older industrial areas, could become de-industrialized slums with attendant social problems. The City's interest in preventing such an occurence is natural, and expansion of the City's role into this area is proper. Without direct City involvement, private sector action is unlikely.

However, the concept needs to be carefully applied. Appropriate activities for a City Corporation in its early stages should be limited to encouraging and working with private industrialists and developers to re-develop industrial land, and not include equity participation. Some limited financial involvement might be occasionally appropriate, once the Corporation has proved its usefulness as a facilitator and negotiator and that it can use non-financial City assets and powers to assist redevelopment.

However, the expectations of such an initiative should be conservative and seen as part of an overall package of initiatives, many of which were discussed in the Mayor's Strategy report. It is unlikely, of itself, to stem significantly the apparent loss of manufacturing jobs in the City. The initiative needs to be accompanied by action on a number of other points, including land use designation, more competitive industrial taxes and promotion. These other components were beyond our mandate but we understand they are currently under consideration by City staff.

Many of those that we interviewed in the course of our work appeared to be under the impression that the "model projects" put forward to illustrate the concept of the Economic Development Corporation are in fact the projects which the Corporation would undertake. We understand this is not the City's intention - in fact one of the properties considered for a model project has now been given over to other uses. The confusion is unfortunate because it has centred attention on the particular financial projections associated with the model projects. These were never intended to be definitive projects but rather were intended as an initial analysis of representative types of projects which seemed to offer opportunities for encouraging Toronto's industrial growth.

Our analysis of the model projects, and experience elsewhere, suggest that it is unlikely that the proposed Corporation can operate without continuing financial contributions from the City. However, provided the Corporation undertakes the kind of catalytic and facilitating role outlined below, the financial contributions required

could be relatively modest. As a first step in a broader program to ensure the continued economic health of Toronto, the likely cost seems worthwhile.

We therefore think it would be appropriate for a Corporation to be established with the object of encouraging industrial redevelopment in appropriate areas of the City.

Based upon the desirability of minimizing the impact of the Corporation on taxes and maximizing its effectiveness as a catalytic force to generate private initiatives, the following guidelines are suggested:

- o the Corporation must be at arm's length from City Hall; this is essential
- o the Corporation should "start small" and try to "encourage" the private sector to act rather than act as developer itself. To provide the Corporation with resources to back up its "encouragement", without directly impacting on tax revenues, it might be assigned some of the City's industrial land if found practical after a careful review of its holdings. It should not at the outset be provided with substantial capital funds. If a particular situation develops in the future that merits equity participation, then the decision can be made at that time on whether the City will actively participate as a co-developer.
- o the Corporation must be led by an individual with extensive and credible experience in industrial property redevelopment as well as in other areas of economic development. Such an individual should have a diversified industrial background (with experience in marketing, management and operations) and a familiarity with government programs and operations at all levels. Very few full time staff will be needed at the outset.
- o the Board of the Corporation must reflect the unique nature of the City and be committed to the objectives of the Corporation. It should be small and feature a strong majority of business leaders. The Board should be selected first and then be charged with the responsibility of staffing and setting specific priorities.
- o the Corporation should attempt to mobilize funding from other levels of government.

- o the Corporation must be free to make decisions on individual programs without resort to constant political approval.

- o the Corporation must have a minimum of other on-going program responsibilities. Therefore the economic development division should continue to exist and take major responsibility for promotion, research and monitoring. The Corporation should be the active agent for specific redevelopment proposals.

- o the remuneration of the Corporation's staff should include salary incentives based upon the performance of the Corporation.

- o the Corporation must have the capability to co-ordinate with City staff in all areas in order to expedite City processes to facilitate its plans. Therefore, there should be a linkage between this Corporation and the Economic Development Division without compromising the independence of the Corporation.

- o the Corporation's performance should be closely monitored and it should have a 'sunset' clause in order to require a positive re-affirmation.

- o the name of the Corporation is important. As a guideline it should be distinctive, reflect a business approach and be easily identified with its purpose.
  - given that there is already an Economic Development Division and that we suggest this division co-exist with the new corporation, and
  - given that Job Corps is already a program name for the federal government,
  - a new name is required - perhaps - DEV-TOR.

In supporting the general thrust of the proposal under our review, and the specific guidelines just described, emphasis should be given to two other matters. First, the activities of the Corporation, as already intended by the City, should focus on more than traditional manufacturing companies. There are better growth prospects in the quaternary sector and there is no particular advantage inherent in an employee having a manufacturing job rather than another kind of job.

The second question is one of rezoning some industrial land, as is currently underway through a variety of measures. Certain industrial redevelopment may only be possible if some redesignation of the site is possible. The ability of the proposed Corporation to generate private initiatives would be significantly enhanced if it had an important input into land use designation decisions. In our view the redesignation of land should be based on sound planning and business principles, committed political will, coupled with a pragmatic degree of flexibility - as is currently shown in commercial zoning decisions.

Our conclusions are based upon investigations we undertook but further detailed research might reveal other attractive models and could certainly suggest alternative forms that the Corporation might assume, although we feel strongly that it should be a "lean and mean" vehicle.

During the course of our review, many key issues that we touched on were matters of policy that are best resolved in the political arena. In particular, many of the proposals in the Mayor Eggleton's Report and in the recommendation of the Neighbourhoods Committee have traditionally been regarded as responsibilities of the provincial and federal governments - especially those that deal with income redistribution and involvement in individual corporations. In our discussions with persons in government and private sector it was clear that reactions are based mostly on one's political/social philosophy. Toronto has succeeded so well as a City because of the

successful interplay of differing philosophies and we can only assume that this will continue. Meanwhile, we support the concept of an enlarged city role in industrial redevelopment for the various reasons noted in the report.

In light of this situation, our review has focused on what is pragmatic and possible given the market and economic forces and mechanisms that exist. All action must be based on solid market and economic principles or the action will fail and if taxpayers' money is at stake - it will be wasted.

2. STUDY OBJECTIVES AND METHODOLOGY

2.1 Objectives

The overall purpose of this review is to provide, on an overview basis, an objective evaluation of the proposed City of Toronto Economic Development Corporation. As part of the evaluation we were asked to comment on:

- whether the concept of the Corporation, as generally proposed is viable and sensible
- what is the likelihood of the Corporation being able to achieve its basic objective of helping to maintain manufacturing employment in the City?
- is the design of the Corporation, as proposed, the best possible or are there improvements which will add to the likelihood of its success?
- are the proposed models appropriate types of mechanisms for the Corporation to be undertaking to achieve its objectives?

2.2 Methodology

Our findings and conclusions are based on the following:

- a review of the substantial amount of information collected by the City and discussions with officials in the Planning and Development Department.
- interviews with other appropriate City of Toronto officials including several in existing, somewhat similar municipal corporations
- interviews with senior corporate officials in selected industrial development companies
- a review of experience elsewhere (Canada, the United States and Great Britain) which included:
  - interviews with key officials in other jurisdictions
  - a literature review of reports on experience elsewhere
  - the expertise gained from our many other studies on local economic development and real estate developers

- o a review of available and relevant statistics and other information on trends in the City of Toronto and surrounding areas
- o a general review of proposed model projects, including interviews with several private sector partners
- o interviews with key Metro, Provincial and Federal officials

A listing of persons interviewed and an itemization of sources consulted are provided in Appendix A.

There has been a considerable amount of research and policy investigation undertaken by the City's staff in many areas relevant to our tasks. We assessed much of this work and have incorporated some of the appropriate findings since we are in broad agreement with many of the conclusions. As will be discussed later, there are naturally some areas that require further study and that were beyond our terms of reference.

3. THE PROPOSED CONCEPT

The proposed Economic Development Corporation is an evolving concept that originated with the Mayor's Inaugural Address and which was more fully outlined in "A Jobs and Economic Development Strategy for Toronto", dated September 1983. As of the present time the proposed objectives are to:

1. generate investment from the private sector in specific projects.

2. provide alternate sites for industries on the move.

3. rehabilitate and restructure obsolete industrial sites.

The Corporation would operate within the following management policies:

1. On a project-by-project basis with each project being subjected to a cost/benefit analysis and a return on investment analysis.

2. Undertake joint ventures with corporations, partnerships or individuals to provide investment capital secured by assets of each project.

3. Capital investment would be recovered over a fixed term.

4. Each project would be approved by the Board of Directors.

5. All available federal and provincial incentives and financial assistance would be used where projects are eligible.

6. The Board of Directors would be accountable to the City Council through annual reports and audited financial statements.

7. Initial capital funding would be provided by a capital fund provided by the City of Toronto to establish a clear commitment from the City, to provide a strong opening Balance Sheet for the Corporation, and to provide a solid base to attract additional capital.

8. The City would provide staff, office facilities, operating expenses, and promotional funds for the Corporation's projects.

9. Legal fees and real estate commissions would be included in project costs.

Exhibit 1 lists the proposed powers of the Corporation and the limits of its authority.

Additional suggestions have been proposed by the Neighbourhoods Committee (Recommendation 6 of Report No. 18)

b) to extend the mandate of the Corporation to include activities and financial support for worker buy-outs of viable enterprises

c) to negotiate guarantees with regard to: plant closures, advance notice of major lay-offs, severance pay for laid-off workers

d) to partner co-operative and public sector initiatives as well as private sector initiatives but not itself becoming the long-term player

e) to advocate job development policies, plant closure legislation and the creation of viable public enterprises by senior levels of government

f) to make recommendations for municipal procurement policies.

The initial funding allocation proposed is for $10 million dollars partly invested by the City in the form of a share purchase ($1-2 million) and partly loaned by the City to the Board ($8-9 million).

The Board of Directors is to be appointed by the Council and is proposed to be composed of the following:

- several (2-3) aldermen from City Council
- a representative of labour
- representatives of business (6-8)

The staffing is proposed to originate with the City's Economic Development Division although no firm suggestions have been made as to how this actually would be done.

EXHIBIT 1

PROPOSED POWERS OF THE ECONOMIC DEVELOPMENT CORPORATION

The following powers were proposed for the Corporation prior to our undertaking this study. While these are broader than are likely to be required immediately, the Corporation should likely have all these powers in reserve so that Board decisions would not be impeded. The specific powers proposed are as follows:

- acquire by option, purchase, lease or exchange and hold lands and buildings and personal property; either alone or in joint ventures with other governments or corporations, partnerships or individuals for the purposes of development and job creation;
- negotiate services such as power, water, sewerage, roads and/or other infrastructures required in relation to development of such properties;
- build, for sale or lease, buildings and structures required for projects and industries, and to hold, sell, rent, lease, mortgage or otherwise deal with such properties;
- acquire, by purchase, donation, lease exchange, concession or otherwise; to take, build upon, hold, own, maintain, work, develop, sell, lease, mortgage, exchange, improve or otherwise deal with in any manner, and dispose of such properties, lands, buildings and real property or any interest therein, to deal with any portion of property so acquired and developed, subdividing same into lots, streets and sites for project purposes;
- remunerate any person, firm or company for services rendered in or about the formation, promotion and conduct of the business of the Corporation;
- provide management services;
- accept in payment for any work done or debt due to the Corporation any stock, shares, bonds, debentures or other securities of any other corporation;
- borrow money and give security as required for purposes of the business of the Corporation.

The Corporation shall carry on its business subject to the following provisions:

1. The business of the Corporation shall be carried on without the purpose of gain for its shareholders or members and any profits to the Corporation shall be used in promoting its objectives.

2. Upon dissolution of the Corporation, and after payment of all debts and liabilities, its remaining property shall be transferred to the City of Toronto.

Four illustrative projects have been described to demonstrate how the Corporation might operate. However, contrary to the understanding of many we spoke to, we have been advised by the City that these projects are not necessarily ones that actually would be undertaken. In fact, one is already unavailable, having been taken up for other purposes. The illustrative projects are:

I development of a 100 acre industrial park in the Port area ('Port')

II rehabilitation of an abandoned industrial facility (old factory recycling)

III rehabilitation of an existing building for a demonstration project to act as an incubator for new businesses ('King Spadina').

IV rehabilitation of a 20 acre site in partnership with the present owner (a large industrial site redevelopment)

4. FINDINGS

In evaluating the Economic Development Corporation, we have concentrated on four key aspects.

1. The industrial environment in the City of Toronto.
2. The potential benefits and risks of a City-led initiative to encourage industry to come to or stay in the City.
3. A review of the proposed model projects.
4. The form and powers of the Corporation.

Before discussing each in turn, there were a number of criteria and principles that we used in our review and that influence the direction of our findings:

- o the review was objective and nothing was taken for granted nor accepted untested if examination was possible within our terms of reference.
- o the proposal must be right for the City of Toronto - its economic life and its politial-administrative structures
- o the proposal must be seen in the long-term perspective - both from the lessons of the past and goals for the future.

Finally, it must be recognized that in the brief time available for our work, we have not been able to investigate everything as thoroughly as we wished. There are consequently a number of areas where further work would be required should the Corporation be established - these are addressed at the end of this chapter.

4.1 The Manufacturing Business Environment in the City of Toronto

Manufacturing has been a cornerstone of the City's economy from its formal start some 150 years ago. According to surveys undertaken by Metropolitan Toronto, manufacturing provided about 12% of all employment located in the City in 1982 which was

about half the average for all of Metro - see Exhibit 2. However, its importance to the Toronto economy has been declining dramatically for a considerable period of time. While completely comparable data are not available, it seems likely that manufacturing provides less than half the jobs in the City that it used to do thirty years ago. Also, while manufacturing's importance has also been declining on a national level, the drop has been disproportionate within Toronto such that now the City only accounts for roughly 5% of Canada's manufacturing employment as compared to 12% in 1951 - see Exhibit 3.

In assessment terms, the data we have at hand indicates that industrial assessment represents about $180 million before equalization, 5.5% of all assessment when equalized, as compared to 12% for Metro - see Exhibit 4.

According to the Toronto Real Estate Board, there are about 60 million square feet of industrial space in the City compared to about 275 million square feet in Metro. However, only 44% of the City's space is less than 20 years old compared to about 65% in the rest of Metro.

Recent evidence compiled by the City comparing 1983 to 1982 shows that over 200,000 s.f. of industrial space were lost when additions and deletions are netted out. On the other hand, about $4 million of increased assessment occurred because the new construction out-valued the demolitions and conversions. TREB, however, shows 200,000 s.f. being added. This is likely due to differing definitions and methodologies used and it appears that figures that reflect a net decline are the more accurate reflection of trends in industrial space in Toronto.

EXHIBIT 2

DISTRIBUTION OF EMPLOYMENT BY TYPE
WITHIN WORK FOR THE CITY OF TORONTO AND
METROPOLITAN TORONTO
1982

	City	Metro
Office	56.1%	42.9%
Manufacturing and Warehousing	12.5%	26.0%
Institutional	11.1%	10.6%
Retail	9.3%	9.7%
Service	9.5%	9.5%
Other	1.5%	1.3%
	100.0%	100.0%
Actual Number	456,495	1,025,333

Source: Metropolitan Toronto Planning Department, Research Division, 1983.

EXHIBIT 3

MANUFACTURING ACTIVITY[1]
IN THE CITY OF TORONTO COMPARED
TO SENIOR JURISDICTIONS

	Activity in City of Toronto		Expressed as a Percent of Other Geographic Levels					
			Metro		Ontario		Canada	
	Est. #	Emp. (000's)	Est. %	Emp. %	Est. %	Emp. %	Est. %	Emp. %
1951	3,796	151.3	82.6	77.4	29.1	25.5	10.3	12.1
1964	2,575	107.2	51.1	45.6	20.1	15.0	7.0	7.3
1970	2,106	87.0	43.0	35.6	16.5	11.3	6.6	5.6
1975	1,791	79.7	39.9	32.6	14.6	9.9	6.0	4.8
1980[2]	1,996[2]	86.7[2]	40.0	34.3	13.8	10.1	5.6	4.9
1981[2]	1,944[2]	78.0[2]	39.0	30.8	13.4	9.1	5.6	4.5

Est. - Establishments, Emp. - total employment

Notes:[1] Excludes Head Offices and Sales Offices from all calculations.

[2] The coverage of the Census of Manufacturers was significantly improved in 1978 and 1979 with the resulting impact that on a national basis about 12% more establishments and 4% more employees were added due to coverage improvement. It seems that the City's coverage improved for employment somewhat larger in proportional terms to other jurisdictions which accounts for the improvement in employment ratios between 1975 and 1980.

Sources: 1951 and 1964 for Toronto and Metro taken from Field and Kerr, Geographical Aspects of Industrial Growth in the Metropolitan Toronto Region, Ministry of Treasury and Economics, 1968 (based on the following sources and as shown in Industrial Development in Metropolitan Toronto, Municipality of Metropolitan Toronto, 1983)

1951 and 1964 for Ontario and Canada sourced from Census of Manufacturer, Statistics Canada, Catalogues 31-203 and 31-209.

1970, 1975 and 1980 sourced from Census of Manufacturers, Statistics Canada, Catalogue 31-209.

Interpretation: Whereas the City of Toronto had 82.6% of all manufacturing establishments in what is now known as Metropolitan Toronto in 1951, the City in 1981 had only 39.0%. Likewise, it had 10.3% of all establishments in Canada in 1951 it only had 5.6% in 1981.

EXHIBIT 4

ASSESSMENT

1982 EQUALIZED
BY CLASS

(%)

	Residential	Commercial	Industrial	Other	Total
City of Toronto	52.9	41.2	5.5	0.5	100.0
Metropolitan Toronto	64.1	22.9	12.0	0.9	100.0

Source: Industrial Development in Metropolitan Toronto, Municipality of Metropolitan Toronto, 1983

Industries are Moving Out

Although taxable assessment keeps climbing and the trend in industrial space is unclear, our research and interviews do indicate that, on balance, there is a movement of industrial firms out of the City. It should be noted that the decline is composed of the combination of three trends:

- o manufacturing companies relocating outside the City
- o manufacturing companies going out of business/cutting back their business
- o few manufacturing companies coming to, starting up or expanding in the City of Toronto.

A wide range of problems confront manufacturing operations in the City and these tend to combine in various ways to prompt firms to close, cutback or relocate outside the City.[1] Listed in rough order of priority, they are:

- o industrial firms located in the City tend to be in older inefficient multi-story buildings with older equipment
- o they lack space for expansion and for parking
- o there are high taxes in Toronto (see Exhibit 5) relative to all other competing areas in Southern Ontario
- o some are located in areas that are becoming more attractive to commercial or even residential uses that theoretically would be a more profitable use of the land (a 'higher and best use').
- o some firms are in non-industrially-zoned areas
- o some are "bothersome' industries to nearby residents because of noise, traffic, air pollution, odours, etc.

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(1) These observations are based on a wide variety of sources. See the list of persons interviewed and the bibliography in Appendix A

EXHIBIT 5

COMPARATIVE REALTY TAXES* IN

SOUTHERN ONTARIO CITIES

MUNICIPALITY	REALTY TAXES PER SQUARE FOOT	
	1983	1981
Mississauga	$ .56	$0.48
Markham	.49	.39
Metro Toronto		
City of Toronto	1.42	1.18
City of North York	1.07	.88
Borough of East York	1.10	.90
Borough of Etobicoke	1.05	.87
Borough of Scarborough	1.12	.92
Borough of York	1.15	.96
Belleville		.63
Burlington		.44
Cambridge		.54
Cornwall		.64
Guelph		.51
Kingston		.61
Kitchener		.62
London		.53
Ottawa		.83
Windsor		.75

*Source: Toronto Area Industrial Development Board, Toronto Real Estate Board and Ministry of Revenue Estimates

NOTE: It is important to realize that municipalities with higher taxes may also be providing more and better services as well as providing other related social and economic benefits.

- o truck transportation access is difficult because of nearby neighbourhoods and inappropriate street design
- o there is an anti-industry and anti-development image of City Hall held by current and potential firms
- o many firms have declining markets or are losing market share to off-shore suppliers or to more efficient and more modern suppliers
- o new residential areas are encroaching on industrial areas which increases resident complaints against existing firms
- o industrial firms tend to have a low profile in the City except for the occasional negative press episode due to pollution problems or closures
- o some businesses complain of high wage rates and the high degree of unionization (others feel they enjoy the opposite)
- o many firms have problems in sharing their facilities and would rather own than rent
- o some have security problems
- o some face stringent zoning and building code regulations that make renovations extremely expensive

Given the large array of problems, one might ask why industry does stay. There are several reasons, including:

- o a well-trained, high-quality labour force, often ethnic, that is conveniently located nearby the plant
- o good transportation mix of public and private modes
- o access to customers
- o access to needed business services
- o access to City amenities
- o a psychological inertia factor of simply not wanting to bother moving
- o a move would be uneconomic at this time because the investment in plant and equipment has been paid for and the return on new investment would be lower
- o an inability to sell existing building and land assets for a significantly attractive amount

- o an expectation of zoning changes that would increase the value of land.

The current pattern is clear - on average as industries decide to rebuild, consolidate, expand or retool, they are likely to relocate outside the City. Likewise, as industries contemplate a new location in the Metro-centred region they are not likely to select the City of Toronto. We believe that the reasons why firms do not select a location in Toronto are:

- o there are almost no serviced, ready-to-build sites (only 84 acres were available last year - see Exhibit 6). Even these may not be marketed effectively, due to speculative interests.
- o high industrial taxes
- o land costs are too high for available sites compared to nearby municipalities (land costs range around $200,000 per acre in the City which is about 30% higher than most surrounding muncipalities)
- o the anti-development and anti-industry image of City (the image may be false but it appears to exist)
- o difficult local transportation (usually for truck access)
- o buildings that are available for purchase, lease or rent are too old and inappropriately designed
- o locations and buildings in nearby communities are cheaper, more modern and more aggressively marketed.

In summary, old industries are either closing down or moving out while new industries are not moving to the City. Clearly it would be desirable, if possible, to stem this drain of economic activity and thus there is a need for action by the City.

4.2. Attracting or Keeping Industrial Firms Is Extremely Difficult

The first question to be answered is whether it is reasonable to attempt to stem part of the outgoing tide of industrial firms.

EXHIBIT 6

AVAILABILITY OF INDUSTRIAL LAND
DECEMBER, 1982

(acres)

	Occupied	Vacant	Excess	Total
City of Toronto	2,000	84	-	2,084
Metropolitan Toronto	19,723	3,942	2,170	25,835

Source: Industrial Development in Metropolitan Toronto, Municipality of Metropolitan Toronto, 1983.

Note: Recent indications are that the situation shown above is substantially the same now as in December of 1982.

Several background factors must be considered:

- o 'industry' can mean anything from a large-scale steel blast furnace to a ceramic factory or an electronic circuit board manufacturer.

- o industry is changing its nature in North America to a more capital intensive approach. More emphasis is also being placed on "informetrics" rather than goods-producing products

- o some traditional industries will always be needed locally in the foreseeable future - food and printing are obvious examples

- o economic development is the major new focus of attention at the local development level as communities increase their efforts to attract the smaller amount of activity (largely in response to the unemployment problem)

To make Toronto attractive to industry, there must be:

- o a choice of readily-available land and appropriate buildings

- o a more positive image created for the City with respect to it being industry minded through marketing and a strengthened industrial policy

- o a review of the tax situation to see if the burden on industry in Toronto is comparable to taxation in other municipalities. The short analysis presented in Appendix C indicates that new industrial space in the City of Toronto is assessed and taxed at a higher rate per square foot of building than is commercial space on the same site.(1)

There are a variety of arguments proposed that state that manufacturing firms will leave the City whether or not the City strives to maintain some or all of them. The main arguments are:

- o manufacturing is a declining sector of Canada's economy and will continue to be so.

- o land that is worth more as residential or commercial property should be permitted to be so if industrial adjustment is to take place. The ra ionale is as follows. Land that is

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(1) See also Assessment in Metropolitan Toronto: Trends and Selected Issues, The Municipality of Metropolitan Toronto, December 1982

worth more for non-industrial uses but that is zoned industrial will be subject to speculative pressures to rezone and sell. As long as the lower-use zoning is kept, there will be no incentive to upgrade the building and thus old industries are encouraged to live longer. These old industries become increasingly inefficient until rezoning pressure finally succeeds. If rezoned earlier, the plant would have to move and modernize or close down. In other words, it is argued that strict zoning enforcement perpetuates inefficient industry.

- o the forces listed earlier are simply too strong to work against
- o the City's tax base will be better with higher assessed values for new commercial properties than old industrial uses
- o the marketing efforts of other municipalities are too strong to counter.
- o there are few suitable buildings and almost no suitable land for new or relocating firms.

On the other hand, there are some arguments that, given certain initiatives, it should be possible to keep some manufacturing and attract a limited amount of new industry.

- o some traditional industries will always want to be close to their City-based customers - such as printing and some needle trades.
- o some industries will be reluctant to leave because they would risk losing a well-trained, loyal and effective workforce
- o some new industries, including those tied to research such as the so-called quaternary (information and high tech related) sector are attracted to urban core locations because of the proximity of education institutions.
- o some industries will be very reluctant to leave their present location because of the value of their fixed and immovable assets.

In our view, the long-term trend to fewer traditional manufacturing companies in Toronto will continue unless very strong measures are taken, such as the direct subsidizing of land or firms by one or more of the levels of government.

In our view, the decline will continue but there is some scope for activity at the margin to keep the outflow to a minimum and to attract certain types of operations if this goal is seen as being to the City's benefit.

The arguments in support of some action to maximize the number of industrial firms in the City are as follows:

- o the societal goal that it is better to have a mix of occupations and job opportunities. Recent data are not available yet to indicate the degree to which manufacturing employment provided in the City is taken up by City residents. Nor are there any data to indicate what happens to employees when companies move out (do they relocate or commute?). We have assumed, based on our discussions, that sizeable components of the industrial workforce in the City of Toronto live in the City and that relocations tend to cause unemployment of these residents.

- o some protection of the diversity of the tax base is needed although 5% is pretty low to begin with. The key here is not lost assessment, unless the land and buildings go unused. In fact, the failure to convert to residential or commercial use may be reducing potential revenues to the City. The assessment argument seems strongest in relation to land or buildings that otherwise would go unused.

- o the loss of manufacturing jobs contributes to structural unemployment since, at least to some degree, relocation will leave behind skilled but sometimes unretrainable employees.

- o the loss of the spin-off advantages of manufacturing firms. It is well-recognized that the multiplier effects of manufacturing are usually higher than for other sectors. Thus, as manufacturing drifts out of the City, there could be a corresponding drift in business and related services that might undermine the commercial base somewhat.

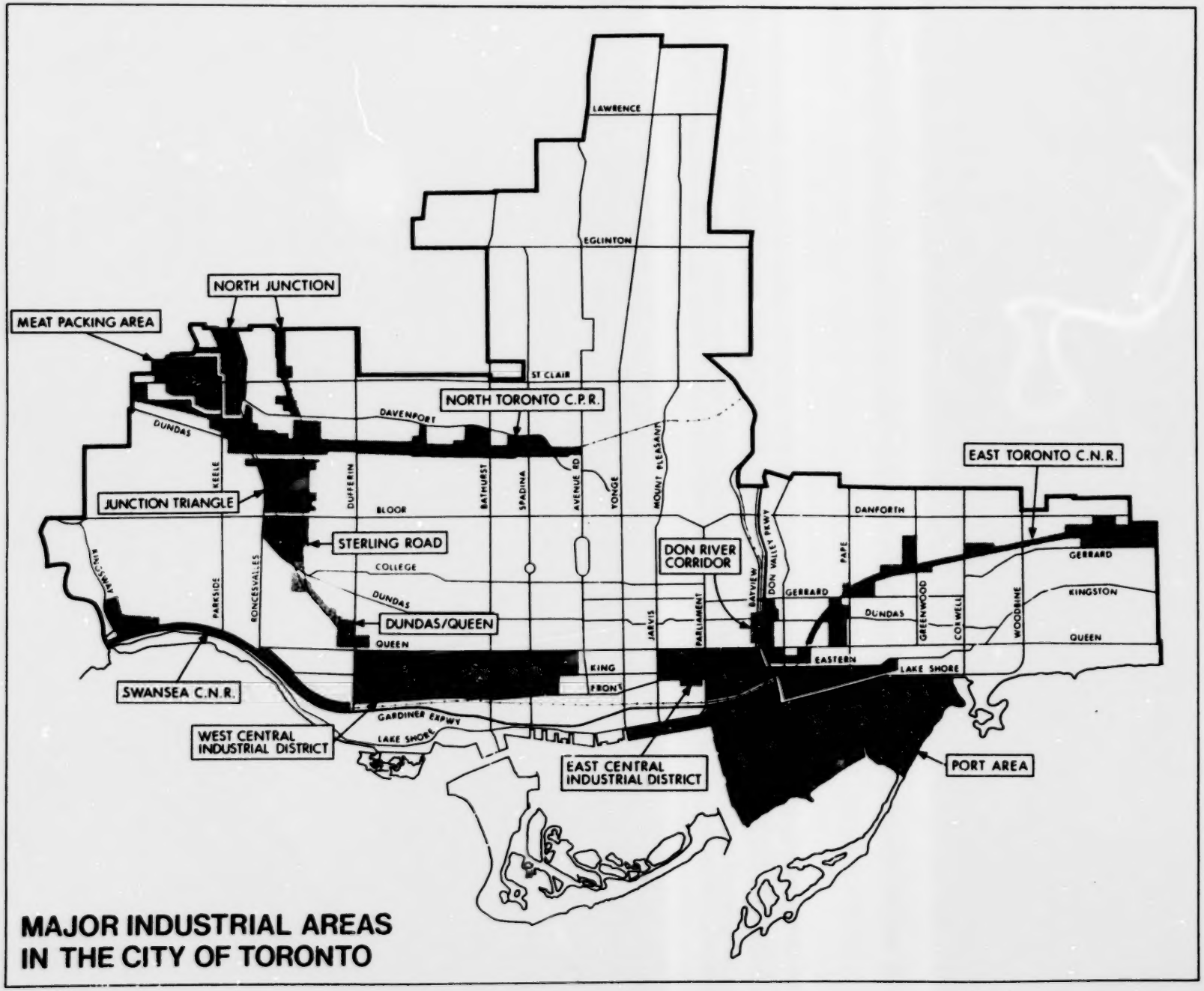
We also considered what the long-term impact of the outflow trends would be. In our view, those areas that are close to residential areas and/or commercial areas will gradually adopt those uses and will probably pay higher taxes; although in the case of residential conversion the cost of increased services (especially police, fire and other soft services) probably would outweigh the increased assessment revenue. Given the spread-out pattern of industrial land-use (see Exhibit 7) it is likely that much of the land currently designated industrial is close to residential and commercial areas or close enough that if some industrial land is redesignated it will correspondingly put more pressure on other industrial land.

Other areas will remain under-utilized because re-use pressures will not be strong enough. These areas, combined with areas that will be simply abandoned, could degenerate into 'industrial slums'.

Also, as manufacturing changes and matures (higher tech) and smaller businesses proliferate, the City may lose opportunities to attact these types of firms because there will be little suitable space for them to occupy (the demand perhaps is too diffuse to be clearly seen and pursued by developers).

In conclusion, there is some scope available to attempt to attract new types of manufacturing, especially firms that are professionally-based and smaller manufacturing firms, as well as to assist some present manufacturing concerns that will always wish to be in the City. Obviously, as recognized by the City, it would be very difficult, if not impossible, to prevent some further decline.

EXHIBIT 7



MAJOR INDUSTRIAL AREAS IN THE CITY OF TORONTO

4.3 Precedents Exist

Various aspects of the proposed concept have precedents in Toronto, the rest of Canada and internationally.

The concept of the municipality being involved in developing land and infrastructure for industry is prevalent across Canada. Hundreds of municipalities purchase land, service it and make it available to industrial firms. Most of these activities are carried out because private industry is reluctant to speculate in smaller communities or because the municipality feels it is necessary to provide more choice and to help reduce price pressures. These factors apply to small and large municipalities such as for Renfrew and Hamilton. In all these cases it is a question of taking raw, unserviced land, subdividing it and servicing it.

Since, with the exception of the Port area, there is no such raw land in the City of Toronto, the City would need to redevelop land in order to undertake the same activities as done elsewhere. There are a number of areas which contain obsolete industrial properties and which could be redeveloped. The difference between developing raw land in other cities and in developing obsolete industrial properties in the City is substantial. First, the preparatory costs for redevelopment are likely to be much higher because of interest incurred during the time needed to acquire all parcels on a site and demolish existing buildings. Second, land costs are likely to be much higher for the City because most landowners anticipate being able to obtain higher values if their land were rezoned. Raw industrial land often has little other use, except agricultural.

The City of Toronto historically has acted as a property developer in the form of City Home and the Parking Authority and has undertaken other special land redevelopment projects such as the block of land south of the new city hall. Also, for various reasons, the City already owns a considerable amount of occupied industrially-zoned land and buildings but there is no fully complete fix as to how extensive these holdings are (see Appendix D for a partial list). Other precedents also exist, such as the TTC air rights development.

We undertook a survey of other jurisdictions in Canada, the United States and Great Britain to see if there are appropriate precedents elsewhere. The basic results of this survey are provided in Exhibit 8 which only lists jurisdictions that have actively undertaken redevelopment of industrial land. No municipality in Canada has redeveloped industrial land on its own initiative although the tri-level (federal, provincial and municipal) Winnipeg Core Area project has done so in that city. Our findings from this limited comparative work are as follows:

- o legal situations are very different in both the United States and Great Britain from those in Canada. In some of these jurisdictions, municipalities are able to provide financing at below market rates, sell land at below cost and market rates, take equity positions in companies and undertake a wide variety of other activities that are termed "bonusing". This is not permitted in any province in Canada.

- o notwithstanding the differences in legal capabilities, there are some close precedents elsewhere to what is being proposed in concept by the City. There are at least eight major municipalities in the United States and Great Britain that have arm's length agencies that redevelop buildings and land in joint ventures with the private industrial sector:

    - although financial details are hazy, some projects are done on a cost-recovery basis and some are subsidized

EXHIBIT A

RELEVANT ECONOMIC DEVELOPMENT EXPERIENCE ELSEWHERE*

	BOSTON	PHILADELPHIA	MILWAUKEE	ST. PAUL	LOUISVILLE	CHICAGO	BALTIMORE	BUFFALO	BRISTOL	MANCHESTER	MERSEY LIVERPOOL	SUDBURY ONTARIO
Type of Organization(s)	Private and Public	Private and Public	Public	Port Authority Private	Public	Public	Quasi Public	Public State Law	Public	Public	Public Secretary of State	Funded by Region to offer incentives to industry
Date Started	?	1958	?	?	?	?	1976	1978	?	?	?	?
Relationship to Municipality	Controlled through the Board	Mayor Controls the Board	Dept. of City	Independent	Dept. of City	Dept. of City	Reports to the Mayor	Reports to the State of New York	Dept. of City	Dept. of City	Works with the Municipalities	Works with the Regional Municipal Councils (RMC)
Source of Funds	General obligation bonding UDAG (Federal)	General Obligation Bonds UDAG	City Budget	Private Bond Issue (slp rates A)	City Budget	City Budget EDA (Federal)	City Bond Issue UDAG EDA	Revenue Bonds UDAG	City Budget and Revenues	L 7.5m capital loan from City	Secretary of State	?
Inflow of Funds exceeds Outflow?	No	No	Yes	Yes	?	?	No	?	Yes	Yes	No	?
Composition of Board	Appointed by Mayor	Council, CH of C Others	Council, CH of C Others	2 Councillors Others	Director reports to the Mayor	Director reports to the Mayor		CH of C Councillors from Municipal Govt's	Director reports to Mayor	Director reports to Mayor	Appointed by the Secretary of State	2 Councillors, Chairman of each RMC, Others
Industrial Activities												
- Promotion	Yes	Yes	Yes	Yes	CH of C	Yes	Yes	Yes	Yes	Yes	Yes	Yes
- Finance Development	Yes	Yes	Yes	Yes	Yes	?	Yes	?	?	?	?	?
- Develop Raw Land	Yes	No	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes
- Redevelop Land	Yes	Yes	Yes	Yes	Yes	Yes	Yes	*	Yes	Yes	Yes	?
- Construct Buildings	Yes	Yes	No	No	No	No	Yes	*	Yes	Yes	Yes	No
- Rehabilitate Buildings	Yes	Yes	No	No	No	*No.	Yes	*	Yes	Yes	?	No
Sale/Financial Arrangements												
- Subsidized Sales	No	?	Yes	No	?	*No	Yes	Yes	?	?	?	Yes
- Tax Abatements	Yes	Yes	?	No	?	Yes	?	No	?	?	?	?
- Financing	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	?
Joint Ventures	Yes	Yes	No	Yes	Yes		Yes	No	*Yes	*Yes	Yes	No
Regarded as Successful	Yes	Yes	Yes	Yes	?	No	Yes	Yes	Yes	Yes	Yes	?
Businesses												
- Kept	Yes	Yes	Yes	Yes	Yes	?	Yes	?	Yes	Yes	*	?
- Attracted	Went to the Suburbs	No	?	Yes	No	?	?	?	Yes	?	*	?
Remarks						Chicago to start becoming directly involved in building. A new administration is changing policy. *Under consideration		*left for cities or municipalities to do	Hewlett Packard *Especially with Life Insurance Co. & Pension Funds	*Map with Life Ins. & Pension Funds	Major project to redevelop 900 acres of industrial space known as the dock lands. *Too soon to tell	

CH of C - Chamber of Commerce
? - Unknown

*Only those local jurisdictions that have actually undertaken industrial land redevelopment.

  - there have been successful downtown property redevelopments that have attracted industry

- money used to finance these endeavors comes from a variety of sources:
  - the local municipality
  - revenue bonds
  - state, federal subsidy programs
  - earnings from redevelopment projects
- these cities have undertaken these activities for the following reasons:
  - to fight urban industrial blight caused by abandoned buildings
  - to preserve manufacturing jobs and to increase employment
  - to preserve and increase a diversified assessment base
  - to compete with other cities
  - to maintain and/or develop a balanced local economy
  - to obtain the spinoff advantages of industrial firms.
- several major private sector corporations have entered into large-scale re-development projects with these cities, such as Control Data in the United States and National Steel in Great Britain.

Our basic conclusion is that these other jurisdictions have demonstrated that industry can be kept and even attracted to the inner areas of highly urbanized centres. However, it usually takes a level of subsidy to achieve this goal. Often these subsidies are provided by senior levels of government that are then delivered by the local entity such as Urban Development Assistance Grants (UDAG's) in the United States. The role of the proposed Corporation would clearly include assisting in accessing any appropriate programs and helping industry in this regard. This is a valued and essential aspect of City participation in economic development.

4.4 The Model Projects

Notwithstanding the general issue of whether the goal of stemming, to some degree, the flow of manufacturing firms out of the City is realistic, we reviewed the four models proposed as sample activities of the Corporation. This review consisted of examining the content and assumptions of the pro forma, including the inclusions and exclusions of revenues and expenses. We also considered the more general issues of the marketability of the properties. However, we have not done any in-depth analysis of the marketability of each project. It should be remembered that these models were only schematic ideas to illustrate possible ways for the Corporation to proceed and were not final proposals.

In Appendix B, each model is critiqued and then financially analyzed under our suggested modifications with the concluding section stating our overall opinion. The models were presented to us in various formats; Appendix A lists the sources of descriptions of the models provided to us.

As we noted earlier in this Report, our interviews indicated that considerable attention has been focused on the specific projects that were listed as sample investments of the proposed Corporation. This view is held by private sector representatives who have been exposed to the concept as well as by officials in both the local and provincial levels of government. This is unfortunate because it has meant that evaluation of the concept of the Corporation has been closely tied to the evaluation of the viability of the proposed models.

We have taken a somewhat different approach. We have evaluated the proposed models since attention has been focused on them and, while conceptual in nature, they could possibly form viable projects if they actually do make financial and marketing sense. We have also evaluated the concept of a municipally-owned corporation making joint-venture investments in industrial property redevelopment on a conceptual basis without reference to specific projects. This latter evaluation is reported in the next section. The evaluation of the models is reported in detail in Appendix B and the findings are summarized here.

In our view, three of the projects as currently envisaged are not financially viable without grant assistance, assuming a market exists. Only in the case of Model IV (a large industrial site redevelopment) do we accept the method of financial evaluation as shown. In the other models we have suggested refinements to the financial statements that make them appear to us to be unlikely to recoup all of the City's investment. In the case of Model IV, the problem seems to be a difference between the City's stated position and that which the present vendor reported to us. Since the viability of this model rests on the leaseback arrangement and since the vendor reported to us different expectations than that used in the model, we are concerned.

It should be stressed that we did <u>not</u> undertake a detailed market evaluation of each model. Thus, we do not know if a market exists for each particular project under the financial conditions outlined. Notwithstanding this, we feel the particular

projects hypothesized will likely require a subsidy even if a market does exist.

We did not attempt to determine if there are other models that would be viable. It certainly was common to hear the phrase "if industrial redevelopment is viable, the private sector would do it" followed by the view that "if the private sector is not doing it, then it is not viable".

The premise that each model is based on is that there is a "window" of opportunity that exists for projects that would recoup costs but not return a commercial profit. This presumably is a small window since industrial redevelopment is risky.

In our view, there is some scope for industrial redevelopment in the City of Toronto and the sooner action is taken on all fronts affecting the situation (availability of rentable buildings and land, zoning, taxes, image, etc.) the better it will be for the City. Since none of the models is definitely a viable proposition at this time, the Corporation should not be concentrating on equity roles until such time as a viable proposition comes forward. Strategically, we see valid reasons, on balance, why the Corporation might get involved if its investment is protected and if it leverages private sector involvement. We simply do not see any such opportunities at present. We explore in the next section other ways for the Corporation to leverage private sector involvement without putting more taxpayers' money at risk.

4.5 The Form and Powers of the Proposed Corporation

We believe there is scope to promote industrial redevelopment within the City but that the expectations of potential achievement should be conservative and the best techniques to apply are by no means clear. One could envisage a range of options but since there is no current project which has been thoroughly researched and proved to be viable, we believe it would make most sense for the proposed Corporation to start not by investing several millions of dollars in real estate but by trying to perform a catalytic role in encouraging private sector initiative.

It is important to match the organizational roles to the needs for development. In our view, there are several key needs:

- vigorous promotion of the City of Toronto, within the context of the Metro promotional initiative
- the marketing of available sites and buildings
- the facilitating of the use of support programs offered by other levels of government
- the increased availability of suitable sites and buildings
- more policy reviews including the necessary research and monitoring functions.

In many locales all five of the above functions are undertaken by one municipal body. However, it does not seem appropriate in Toronto's case to centralize all these functions in an outside body. Our reasons are as follows:

- promotion of Toronto is a general need and one that is likely to be partially met by Metro if their new marketing plan is enacted.

- there was some indication that not enough is being done to help businesses take advantage of support programs offered by senior levels of government. This is somewhat surprising considering that federal and provincial offices are concentrated here. Some effort should be extended on this matter, probably by an internal department since it will be on an ongoing basis, as well as by the outside corporation in property-related areas.

- the City traditionally undertakes policy development as part of Departmental activities. While there are a number of valid reasons for separating some economic development functions from municipal departments[1] we do not see these as significant enough to change the leaning of the political/administrative environment in Toronto.

- to increase the availability of suitable sites and buildings will take considerable negotiations and deal-making with the private sector. This will only be accomplished if the City's representative is separate from City Hall.

Therefore, we recommend that there be two approaches taken with two organizational implications:

o maintain the existing economic development division that would have the same general responsibilities that it currently has. In particular:

  - research and monitoring
  - information base
  - supplemental marketing in areas that Metro and the private sector do not cover
  - general liaison with senior jurisdictions to maximize industry's use in the City of other programs.

o establish a new arms-length industrial redevelopment corporation (agency, authority) that would specifically undertake the objective of increasing the supply of appropriate industrial sites and buildings in conjunction with the private sector.

Essentially, we see increasing supply as critical but do not see this function as part of the City departmental structure. Likewise, the other functions are important but they do not need to be separate and in fact probably would diffuse the supply aspect if part of the same organization.

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(1) See the papers presented at the 1982 meeting of the Ontario Industrial Development Council, especially "Reporting Structures and Role of Municipal Development Officers", Mary S. Dillon, Manager of Business Services Division of the City of Burlington.

More particularly, we suggest the following approach to the industrial redevelopment corporation be taken.

Organizational Concept

- o should be at arms length to City Hall. In our view, the activities that the Corporation may pursue are best done by an outside organization when all pros and cons are considered.

- o should have a strong board committed to Toronto and to the viability of businesses and employment in the City. The board should be as small as possible and as independent (yet accountable) as possible. We suggest no more than 7 or 8 individuals - 1 Council
  - 6-7 Business and Labour representatives (strong majority business)

Powers

- o although the capability to participate actively in redevelopment as an equity partner may be viable in the future, we think it is best to let the private sector have a major input into how the Corporation can best be a catalyst

- o its prime role, at the outset, should be to use as many approaches and skills as necessary to spark actual industrial development short of actual financial investment. This would include the following activities that are largely done already by a variety of officials:

  - zoning and development rights negotiations
  - red-tape untangling
  - matching of buyers and sellers

  two other leverages and incentive powers should be considered:

  - the use of land currently owned by the City as a form of investment
  - the possibility of deferring property taxes or redevelopment projects.

- o all other programming responsibilities such as research, information clearing house, general promotion, etc. should reside in the Economic Development Division

Staffing

- o we view it as important that the economic development corporation be 'lean' in terms of permanent staff. Aside from the full-time director, it should borrow or buy staff resources on an as needed basis until its roles and responsibilities are clearly set over a significant time period.

- o the key person will be the lead individual who runs the corporation. In our view, this person should be:

  - aggressive, yet politically sensitive
  - familiar with and credible in industrial property redevelopment
  - knowledgeable in industry and government programs
  - familiar with business needs and decision-making processes

- o in order to attract and motivate this individual, it may be necessary to consider some type of remuneration package that includes performance bonuses of some form.

Funding

- o some consideration should be given to transferring control of City-owned land that is zoned industrial to the Corporation as a means of providing assets without affecting tax levels. This would indicate the seriousness of the initiative and permit greater flexibility in its catalyst role. The holdings shown in Appendix D contain enough such assets to give the Corporation notable bargaining resources.

- o At the beginning, it would appear that no general capital funds will be required for the Corporation (although it will require some operating funds). Should it develop and have a specific well-tested project which requires City funding, consideration should be given to providing funding at that time.

Conclusion

The concept of a proactive economic development corporation is a positive step. As recognized, it is but one step in a series of necessary initiatives that are required to improve the City's prospects for industrial and related economic development. Without a significant new commitment, the City is unlikely to change

current trends. The City's initiative, as modified herein, puts Toronto on the right track - what is now required is further work on the other economic support programs, land use designation, taxes and promotion, which are currently being considered.

APPENDIX A.2

KEY PERSONS INTERVIEWED

City of Toronto

Mayor Arthur Eggleton

Alderman Tony O'Donoghue

Alderman Joseph Pantalone

Alderman June Rowlands

Morley Bregman, Acting Executive Director of Management Services

W.R. Callow, City Solicitor

George H. Clarke, Commissioner of Finance & City Treasurer

Steven G. McLaughlin, Commissioner of Planning and Development

Larry Reed, Deputy Commissioner of Finance

Reginald Lewis, Executive Director, Parking Authority of Toronto

Ian J. Brown, Department of Planning and Development

Daniel Burns, Department of Planning and Development

Hal Fredericks, Department of Planning and Developments

John Hastings, Department of Planning and Development

William McCulloch, Department of Planning and Development

Peter Tomlinson, Department of Planning and Development

Bill Wilkerson, Assistant to the Mayor

Metropolitan Toronto

Doug Floyd, Executive Director, Economic Development, Municipality of Metropolitan Toronto

Real Estate Industry

Samuel Craig, Cadillac Fairview

John Angevine, W.H. Bosley & Co.

Ramsay Lunen, Atlantis Real Estate Corp.

Jarvis Lyons, S.R. Lyons and Son

J.S. Appleyard, Slough Estates Canada Ltd.

Ray Ulch, R.A. Associates

Chet Hooper, J.J. Barnicke

Frank Camenzuli, formerly of Friedman Group

Plus several other confidential interviews with private sector individuals.

Other Government

Larry O'Toole, Ministry of State for Economic Development (Federal)

Jerry Cooper, Ministry of State for Economic Development (Federal)

David Dallimore, Department of Regional and Industrial Expansion (Federal)

Pat Reed, Department of Regional and Industrial Expansion (Federal)

Wayne Crossley, Ministry of Industry and Trade (Province)

Robert Gardner, Ministry of Treasury and Economics

Other Economic Development Agencies (England and the United States)

Rick Swist, Erie County Development Agency (Buffalo)

Michael West, Director of Economic Development for Bristol (England)

Stephen Spalding, Office of Economic Development, Louisville, Kentucky

Rosalind Paaswel, Chicago Economic Development Corporation

Jim Scherer, Milwaukee Economic Development

Eugene Kraut, Port Authority of St. Paul

Mike Arno, Philadelphia Redevelopment Authority

Other Economic Development Agencies (cont.)

Pat Heron, Philadelphia Industrial Development Corp.

John Claypool, Greater Philadelphia Corp.

Bernard Berkowitz, Baltimore Economic Development Corp.

Marylin Schwartz Lloyd, Boston Economic Development Industrial Corp.

I.M. Bolton, Greater Manchester Economic Development Corp.

J. Kitchie, Merseyside Development Corp.

Other Economic Development Organizations in Canada

We utilized our familarity with working for other jurisdictions and also contacted officials in these and other appropriate locales. These places include:

Edmonton
Calgary
Winnipeg
Sudbury
Windsor
London
Hamilton
Cornwall

APPENDIX B

THE MODEL PROJECTS

I. Port Industrial Park

Comments on Model Assumptions

- the proposal document reviews types of firms likely to located in the park based on available data but indicates that a market study should be done prior to proceeding with the project. We agree with this. More information is necessary to assess the attractiveness of the park to various industries and the likely absorption rate of land.

- market value of land is estimated to be $175,000 based on discussions with realtors concerning average prices of land for the Metro area and their view of the port location. This price may be either high or low for this particular location. This could also be assessed in the market study by investigating what firms would be prepared to pay for the land.

- the Harbour Commission concludes that land will be sold at market rates. Given the extra costs of footing on the site, the land will likely have to be sold to most users for a discount equal to the additional construction costs. This lowers the land sale price to "breakeven" level without considering discounting for the time value of money. If the price of land to the Harbour Commission rises above the $42,000 figure used in the Model the project no longer "breaks even".

- This model assumes that the City, not the Economic Development Corporation, pays for the servicing costs for the Park, in exchange for annual tax revenues due to the Park. If the project is feasible as a standalone investment (i.e. as though a private investor were developing it), it should be able to cover its own servicing costs.

- Tax benefits accruing to the City of $2 million are matched against increased operating costs of only $15,000. Economic Development Staff indicated that this includes snow plowing and removal, sanding and salting, street cleaning and sewer flushing, based on several discussions with the City staff responsible for these areas. They were

told there would be no other increased costs for City operating departments. Nevertheless, we are uneasy about the low level of operating costs indicated.

Woods Gordon Financial Analysis (Exhibits I-A, I-B, I-C and I-D)

Several scenarios were analyzed for the Park using the assumptions in the proposal document except as noted.

Case 1

Assumes parcels are sold at $175,000/net acre evenly over 10 years. Servicing is completed in three phases (as specified in the proposal) in years 1, 4 and 6. The servicing costs are charged to the project unlike the proposal.

This project has a positive NPV of $698,000 at a 10% discount rate. However, in our opinion the $175,000 per acre sale prices are not achievable given the additional costs of footings required.

Case 2

Assumes that the land is sold for a discount of $90,000/acre which is the estimated additional cost of footings required for the site (i.e. land is sold for $85,000/acre). Some of those interviewed during the course of this study indicatd that footing costs could be substantially higher than $90,000 per acre but we have no basis for determining the accuracy of these views. The land price to the Harbour Commission remains at $42,000/acre; this figure might be lowered if sale value of the land is less than $175,000/acre.

a) On this basis the NPV at 10% is ($3,453,000). This is to be expected since the land acquisition, servicing costs, and other costs per acre are greater than the selling price per acre even before discounting.

b) If the land is assumed to have a zero cost (Exhibit I.B, Case 2b) the result is a positive net present value.

Case 3

a) To improve the results in Case 2, we assumed land price at $42,000/acre was paid to the Harbour Commission only as acreage was sold. The NPV at 10% is ($1,776,000): still negative.

b) Paid at the end of the project, the NPV at 10% is ($1,280,000): somewhat improved, but still significantly negative.

Conclusion:

Only Case 1 and Case 2b indicate a positive net present value at a 10% discount rate. We do not think a positive net present value is achievable unless:

- o the land is obtained at zero cost (Case 2b), or
- o servicing costs are absorbed by the City as a separate entity from the Corporation or by the Provincial or Federal governments because of the concerns stated under Case 1.

II. OLD FACTORY RECYCLING Model

This building has subsequently sold and is being converted to a different industrial use. It remains here as a potential model of this type of activity.

Comments on Model Assumptions

- o Approximately $2/sq. ft. is allowed for plumbing, partitioning etc. This allowance may be too small. An outside estimate of renovation costs should be obtained prior to attempting this type of project in future.
- o It is unlikely that a building of this type would achieve an occupancy level of 95%. Sensitivity to vacancy rates should be assessed in the financial analysis.
- o The 1.50 square foot lease rate may be lower than necessary - see analysis below.
- o Other assumptions seem reasonable.

Woods Gordon Financial Analysis (Exhibit II-A)

- o We completed two sets of analysis for the Recycling example. One used the assumptions as outlined in the proposal except we assumed it would take a year to lease the building and the vacancy rate after lease-up was assumed to be 10% (instead of 5%). As well, operating costs were assumed to be $3/sq. ft. for vacant space. These costs were not calculated in the proposal.

For this model and the next, the building is assumed to sell at the end of year 3 since the Corporation is not intended to hold property long term for its net operating income capitalized at 10%. When this analysis is discounted at 10%, the net present value is ($597,289), i.e. it does not earn the required 10%.

- o Our second analysis used the same assumptions as the first, except the industrial space was assumed to lease for $2/sq. ft. At these income levels the NPV at 10% is positive - $244,363, primarily because this justifies a significantly higher selling price for the building. These rental rates are not unrealistic in our estimation but the analysis demonstrates the importance of calculating economic rents and then determining how they relate to market rents.

Conclusion

This project would be economically viable if rents close to $2/sq. ft. for the industrial space could be obtained. This would require some market analysis but we expect it would be positive.

III. King-Spadina

Comments on Model Assumptions

- o demand projections for space are based on projections of numbers of jobs in quarternary industry in Canada, an estimate of the number of these jobs that can be attracted to Toronto and a floor space estimate per employee. All of these numbers are necessarily soft and demand projections could be off by a large degree. For example, the floor space per employee ranged from 150-600 sq. ft. in various companies in the sample used to derive the estimate. Given available data this is a reasonable approach to projecting demand. More detailed market analysis would presumably be completed prior to starting the project.

- o Considerable marketing effort will be required to make this a quarternary concentration area.

- o the building is proposed as a seed project for quarternary industry. The marketing plan will need to consider how to attract this type of industry and what will happen if other types of industry want to lease space in the building.

- o lease rates used in the financial scenario are $15 net/sq. ft. for office space and $7 net/sq. ft. for manufacturing space. These may be achievable but certainly are not low end of market. Even at these rents, annual return on equity is calculated to be only 2.5%. To earn 10%/annum rents of $18.60/sq. ft. for office and $8.68/sq. ft. for manufacturing are required. Class A office space on University Avenue is currently leasing for $20 net/sq. ft. with additional tenant inducements.

Woods Gordon Financial Analysis (Exhibit III-A)

- o We used the assumptions inherent in the most likely scenario in the proposal for the King Spadina project except that we assumed that the building would take a year to lease and that the building would sell at the end of year 3 for its net income capitalized at 10%. We also assumed operating costs of $4/sq. ft. instead of $2.50 which we consider too low. The vacancy rate used in year 2 was 10% rather than 4.5%.

- o The NPV at 10% for this scenario is ($736,725). In our opinion higher rents are not achievable; the rents as projected are optimistic.

Conclusion

In order to make this project financially viable, it requires:

- o a site donated to the corporation

or

- o federal or provincial grants available to assist with the construction costs.

However, we agree that there are some synergies from having these types of firms in proximity and a seed project might be useful.

IV. LARGE SITE REDEVELOPMENT

Comments on Model Assumptions

- o because this project involves a purchase of land from a particular firm and leaseback of facilities to them, there are complex interrelationships between land acquisition costs, land sale prices and leaseback revenues. The projection given to us represents the City's view of the type of relationship achievable and necessary to provide the return they require.

- o our discussions with a firm indicated that their expectations of land sale prices and leaseback payments are quite far from the City's figures (see Conclusion below)

- o 170,000 sq. ft. of office space is a considerable amount for this area of the city. The document indicates that the layout is based on Inducon's assessment of layouts in suburban industrial/office parks. A more detailed market analysis should be completed before a final design of the site is decided to determine if this layout is appropriate for an inner city park.

Woods Gordon Financial Analysis (Exhibit IV-A and IV-B)

Using the financial projection provided to us by the City (Exhibit IV-A), we extracted the line "surplus/deficit before financing" and factored out the corporate investment from the receipts and disbursements to obtain a net cash flow for the project over six years. When this stream is discounted at 10% the NPV is $427,270 (the IRR is approximately 12%).

Conclusion

If the arrangements negotiated with the owners of the property are equivalent to or better than those in the proposal, this proposal appears sound.

A representative of the firm was contacted regarding the sale of their property to the City. He indicated that they expect a

sale price for the land of $8-8.5 million ($300,000/acre) for 27 gross acres (compared to $6.3 million for 23.67 acres ($265,000/acre) in the pro forma). They would only want to leaseback office space for one year. The industrial space they would hope to lease for 2-3 years with options to renew for up to 10 years. He thought rental rates of $7.75/sq.ft. for office and $3.00/sq.ft. for industrial space seemed high although trade-offs between rental rates and sale prie of land would be made. He does not expect that they would locate R & D or office functions in newly developed space on the site.

Obviously, the firm in question would be expected to change the numbers in their favour since negotiations for the site are in their early stages. However, even if rents remain at the levels projected, if the land price rises by $25,000 per acre or more, the project no longer earns the 10% return.

EXHIBIT I.A

PORT INDUSTRIAL PARK
($000's)

CASE 1

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
RECEIPTS:											
Land Sales @ $175K/net acre		1,519	1,519	1,519	1,519	1,519	1,519	1,519	1,519	1,519	1,519
Mortgage Proceeds	1,588		500		911						
Total Receipts:	1,588	1,519	2,019	1,519	2,430	1,519	1,519	1,519	1,519	1,519	1,519
DISBURSEMENTS:											
Land Costs	2,268		714		1,302						
Engineering/Design	312										
Marketing/Sales Costs	60	60	60	60	28	28	28	28	28	28	28
Servicing Costs	2,243			972		1,265					
Mortgage (Interest Only) @ 14%	222	222	119	0	128						
Total Disbursements	5,105	282	893	1,032	1,458	1,293	28	28	28	28	28
Net Cash Flow Before Mortgage Repayment	(3,517)	1,237	1,126	487	972	226	1,491	1,491	1,491	1,491	1,491
Mortgage Repayment	0	1,237	851	0	911	0					
Net Cash Flow After Mortgage Repayment	(3,517)	0	275	487	61	226	1,491	1,491	1,491	1,491	1,491

NPV @ 10% $698.
@ 12% 237.

IRR 13.2%

EXHIBIT I.B

PORT INDUSTRIAL PARK
($000's)

CASE 2a

Reduced Land Sale Price

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
RECEIPTS:										
Land Sales @ ($175K-$90K)/net acre	-	850	850	850	850	850	850	850	850	578
Mortgage Proceeds	1,588	-	500	-	911	-	-	-	-	-
TOTAL RECEIPTS	1,588	850	1,350	850	1,761	850	850	850	850	578
DISBURSEMENTS:										
Land Costs	2,268	-	714	-	1,302	-	-	-	-	-
Engineering/Design	312	-	-	-	-	-	-	-	-	-
Marketing/Sales Costs	60	60	60	60	28	28	28	28	28	28
Servicing Costs	2,243	-	-	972	-	1,265	-	-	-	-
Mortgage (Interest Only) @ 14%	222	222	213	162	290	270	270	193	104	4
TOTAL DISBURSEMENTS	5,105	282	987	1,194	1,620	1,563	298	221	132	32
NET CASH FLOW BEFORE MORTGAGE REPAYMENT	(3,517)	568	363	(344)	141	(713)	552	629	718	546
MORTGAGE REPAYMENT	0	568	363	0	141	0	552	629	718	28
NET CASH FLOW AFTER MORTGAGE REPAYMENT	(3,517)	0	0	(344)	0	(713)	0	0	0	518

NPV @ 10% ($3,453)
@ 12% ($3,404)

EXHIBIT I.B

PORT INDUSTRIAL PARK
($000's)

CASE 2b

Land Cost $0

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
RECEIPTS:										
Land Sales @ ($175K-$90K)/net acre	-	850	850	850	850	850	850	850	850	578
Mortgage Proceeds	-	-	-	-	-	-	-	-	-	-
TOTAL RECEIPTS	0	850	850	850	850	850	850	850	850	578
DISBURSEMENTS:										
Land Costs	-	-	-	-	-	-	-	-	-	-
Engineering/Design	312	-	-	-	-	-	-	-	-	-
Marketing/Sales Costs	60	60	60	60	28	28	28	28	28	28
Servicing Costs	2,243	-	-	972	-	1,265	-	-	-	-
Mortgage (Interest Only) @ 14%	-	-	-	-	-	-	-	-	-	-
TOTAL DISBURSEMENTS	2,615	60	60	1,032	28	1,293	28	28	28	28
NET CASH FLOW BEFORE MORTGAGE REPAYMENT	(2,615)	790	790	(182)	822	(443)	822	822	822	550
MORTGAGE REPAYMENT	0	0	0	0	0	0	0	0	0	0
NET CASH FLOW AFTER MORTGAGE REPAYMENT	(2,615)	790	790	(182)	822	(443)	822	822	822	550

NPV @ 10% ($408)
@ 12% ($180)

EXHIBIT I.C

PORT INDUSTRIAL PARK
($000's)

CASE 3a - LAND PAID FOR AS LOTS SOLD

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
RECEIPTS:										
Land Sales @ $175-$90/net acre	-	850	850	850	850	850	850	850	850	578
Mortgage Proceeds	-	-	-	-	-	-	-	-	-	-
TOTAL RECEIPTS	-	850	850	850	850	850	850	850	850	578
DISBURSEMENTS:										
Engineering/Design	312	-	-	-	-	-	-	-	-	-
Marketing/Sales Costs	60	60	60	60	28	28	28	28	28	28
Servicing Costs	2,243	-	-	972	-	1,265	-	-	-	-
TOTAL DISBURSEMENTS	2,615	60	60	1,032	28	1,293	28	28	28	28
NET CASH FLOW BEFORE MORTGAGE REPAYMENT	(2,615)	790	790	(182)	822	(443)	822	822	822	550
LAND COSTS	-	420	420	420	420	420	420	420	420	286
NET CASH FLOW AFTER MORTGAGE REPAYMENT	(2,615)	370	370	(602)	402	(863)	402	402	402	264

NPV @ 10% (1,776)

EXHIBIT I.D

PORT INDUSTRIAL PARK
($000's)

CASE 3b - ALL LAND COSTS IN YEAR 10

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
RECEIPTS:										
Land Sales @ $175-$90/net acre	-	850	850	850	850	850	850	850	850	578
Mortgage Proceeds	-	-	-	-	-	-	-	-	-	-
TOTAL RECEIPTS	-	850	850	850	850	850	850	850	850	578
DISBURSEMENTS:										
Land Costs	-	-	-	-	-	-	-	-	-	4,284
Engineering/Design	312	-	-	-	-	-	-	-	-	-
Marketing/Sales Costs	60	60	60	60	28	28	28	28	28	28
Servicing Costs	2,243	-	-	972	-	1,265	-	-	-	-
TOTAL DISBURSEMENTS	2,615	60	60	1,032	28	1,293	28	28	28	4,312
NET CASH FLOW BEFORE MORTGAGE REPAYMENT	-	-	-	-	-	-	-	-	-	-
MORTGAGE REPAYMENT	-	-	-	-	-	-	-	-	-	-
NET CASH FLOW AFTER MORTGAGE REPAYMENT	(2,615)	790	790	(182)	822	(443)	822	822	822	(3,734)

NPV @ 10% ($1,280)

EXHIBIT II-A

OLD FACTORY RECYCLING

		As Proposed		At 2.00/sq. ft. for Industrial		
	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
REVENUE						
Industrial 214,400 x $1.50		$ 321,600	$321,600		$428,800	$428,800
Office 16,000 x $3.50		56,000	56,000		56,000	56,000
Parking $10 x 12 months x 192		23,040	23,040		23,040	23,040
Subtotal		$ 400,640	$400,640		507,840	507,840
Less Vacancy 50% year 1		200,320			253,920	
10% year 2			40,064			50,784
Net Revenue		$ 200,320	$360,576		253,920	457,056
EXPENSES						
Operating Expenses on vacant space $3/sq. ft.		345,600	69,120			
Structural 1%		2,000	3,600			
Management 3%		6,000	10,800			
Leasing and Marketing 10% of subtotal year 1		40,000				
Total Expenses		$ 393,600	$ 83,520		$393,600	$83,520
Net Operating Cash Flow		(193,280)	277,056		(139,680)	373,536
Selling Price (Net Income Year 2 capitalized at 10%)			2,770,560			3,735,360
Total Costs						
Purchase Price	$2,500,000					
Clean-Up	100,000					
Renovation	400,000					
Total Investment	$3,000,000			3,000,000		
Total Net Cash Flow	($3,000,000)	($193,280)	$3,047,616	($3,000,000)	($139,680)	$4,108,896
NPV @ 10%	($597,289)			NPV @ 10% = 244,363		
				IRR 14%		

EXHIBIT III-A

KING SPADINA

	Net Size	Year 1	Year 2	Year 3
Rental Revenue				
Retail @ $10/sq. ft.	3,400		$ 34,000	$ 34,000
Technical Office @ $12/sq. ft.	20,000		240,000	240,000
Data Processing @ $9/sq. ft.	10,000		90,000	90,000
Light Industrial @ $7/sq. ft.	20,000		140,000	140,000
Trad. Office @ $15/sq. ft.	20,000		300,000	300,000
	73,400			
Parking Revenue			54,720	54,720
Potential Rent			858,720	858,720
less vacancy, year 1 50% year 2 per proposal			429,360	35,900
Net Rental			429,360	822,820
Operating Costs				
on vacant space @ $4/sq. ft.			146,800	13,760
management 4% of net year 2 rental			32,900	32,900
Structural 1%			8,000	8,000
Total Operating Costs			183,700	54,660
Net Operating Income			245,660	768,160
Annual Debt Service			725,618	725,618
Net Annual Operating Cash Flow			(479,958)	42,542
Selling Price: Net Operating Income capitalized at 10%				7,681,600
Repayment of Mortgage				5,562,474
Net Sales Proceeds				2,119,126
Investment				
Land		$2,270,108		
Building Construction		4,972,938		
Interim Financing		517,528		
Total Cost		7,760,574		
less Mortgage		5,600,000		
Net Investment		2,160,574		
Net Cash Flow		(2,160,574)	(479,958)	2,161,668
NPV @ 10%		($736,725)		

Exhibit IV-A

LARGE SITE REDEVELOPMENT

CASH FLOW PROJECTION SUMMARY
(PROVIDED BY CITY OF TORONTO ECONOMIC & DEVELOPMENT DIVISION)[8]

(BASIC 5-YEAR SCENARIO)

	Total	1983	1984	1985	1986	1987	1988
Receipts							
Land sales[1]	4,452,000	-	1,086,000	390,000	990,000	282,000	1,704,000
Corp. investment	2,273,000	2,273,000	-	-	-	-	-
Income from leaseback[2]	7,316,400	731,600	1,463,300	1,463,300	1,463,300	1,463,300	731,600
Total Receipts	14,041,400	3,004,600	2,549,300	1,853,300	2,453,300	1,745,300	2,435,600
Disbursements							
Cost of raw land[3]	6,272,550	6,272,550	-	-	-	-	-
Construction of roads and services	678,748	-	678,748	-	-	-	-
Professional services[4]	472,826	20,000	238,919	42,787	56,925	16,215	97,980
Site preparation[5]	1,208,600	859,100	150,000	-	-	-	199,500
Realty Taxes[6]	301,267	92,602	70,013	61,901	41,309	35,443	-
Sub Total	8,933,991	7,244,251	1,137,680	104,688	98,234	51,658	297,480
Surplus/(deficit) before financing	5,107,408	(4,239,652)	1,411,620	1,748,612	2,355,066	1,693,642	2,138,120
Mortgages drawn/(repaid)[7]	(1,466,880)	3,760,000	(1,500,840)	(716,280)	(1,233,480)	(449,160)	(1,327,120)
Interim financing drawn/ (repaid)	(161,850)	479,652	89,220	(730,721)	-	-	-
Surplus (Gross)	3,478,679	-	-	301,611	1,121,586	1,244,482	811,000
Less Corp investment repaid	2,273,000						
Surplus (Net)	1,205,679						

1 Net acreage 22.26 @ $200,000 per acre.
2 Office space 127,255 sq. ft. @ $7.75 per sq. ft., Industrial space 159,000 sq. ft. @ $3 per sq. ft.
3 Gross acreage 23.67 @ $265,000 per acre.
4 Includes: engineering and resident supervision, administration and management, surveys and soils testing, bonding and guaranteed maintenance, realtors fees, legal fees
5 Includes: railway work, underground hydro, demolition
6 Provision for realty tax obligation during development $92,602 in 1983, declining each year based on lease-up.
7 Interest rate assumed at 12% for both mortgage and interim (bank) financing.
8 Pursuant to comments in text on the owner's response to our inquiries, we argue with the method of cash flow analysis shown here

EXHIBIT IV-B

LARGE SITE REDEVELOPMENT

EVALUATION SUMMARY[1]
($ 000's)

	Year 1	2	3	4	5	6
Surplus/(deficit before financing) (as per Cash Flow Projection Summary)	($4,240)	$1,412	$1,749	$2,355	$1,694	$2,138
less Corp. Investment	(2,273)					
Net Cash Flow	($6,513)	$1,412	$1,749	$2,355	$1,694	$2,138

NPV @ 10% $427.27
@ 12% $ 96.4

[1] Calculated by Woods Gordon

APPENDIX C

A SHORT REVIEW OF ASSESSMENT AND TYPES OF INDUSTRIAL AND COMMERCIAL PROPERTIES IN THE CITY OF TORONTO

There are two types of negative pressures affecting industrial land redevelopment in the city - expectations of commercial rezoning and taxes related to industrial land.

Since commercial zoning usually allows for greater coverage than industrial and commercial rents tend to be higher than industrial rents, (if a market for commercial space exists) the income that can be generated from a commercial development on a site (and therefore the land value) is greater than that for an industrial development. For this reason, owners of industrially zoned land will tend not to redevelop it if they think there is the possibility of commercial rezoning in the not too distant future.

Discussions with officials responsible for Property Assessment in the Provincial Government has led us to believe that new industrial buildings in the City of Toronto would not only be assessed and taxed at a high rate in relation to other Municipalities, but would also potentially be assessed and taxed at a high rate compared to commercial property within the City.

Commercial property in Toronto is assessed at an average of 10% of its value based on an income capitalization approach which may be calculated as follows:

Sample: Net Rent per Sq. Ft. $12.00
Value: Capitalized at 12% = $12.00 x $\frac{100}{12}$ = $100/sq. ft.
Net Rent

Assessment at 10% of Value = $10 per sq. ft.

City of Toronto 1983 Commercial Mill Rate 284.59

Realty Taxes $\frac{284.59}{1,000}$ x $10 = $2.86 per sq. ft.

Older industrial space in the City is assessed differently. Because much of the City's Industrial space is old, and/or owner occupied, it is difficult to estimate what market rents would be.

The Assessment Department cannot easily assess industrial buildings on an income (rental) basis and instead uses a cost-to-build (less depreciation) approach. While this works adequately for older industrial buildings with enough accumulated depreciation to lower their assessed value to reasonable levels, it could prove onerous for new buildings.

Example

1 acre site - cost	$ 200,000
25,000 sq.ft. building @ $35 per sq.ft. cost to build	875,000
Total	$1,075,000

The total cost including land would equate to $43 per sq. ft. ($1,075,000/25,000) of building and would be assessed at 25%-30% of cost or $10.75-$12.90 per sq. ft. of building (say 11.83).

The realty taxes would be $\frac{284.59}{1,000}$ x $11.83
= $3.37 per sq. ft. which is 18% higher than the commercial realty tax of $2.86 per sq. ft. calculated earlier.

It appears that new industrial space would suffer because of the low density development on very expensive land, and the method by which it would be assessed.

APPENDIX D

CITY OWNED LANDS, INDUSTRIALLY ZONED AND ONE-QUARTER OF AN ACRE OR LARGER IN SIZE

Address	Zoning	Area (m^2)	Acres	Use
260 Adelaide St. W.	I3D7	2,573		Fire Station
1 Church St.	C3V4	3,140		Parking
786 Dundas St. E.	C2V2	4,451		Public Works
433 Eastern Ave.	I2D5	86,025		City Workshop
843 Eastern	C2V1	23,104		Auto Repair & Storage
895 Eastern Ave.	C2V1	9,496		Fire Station
1245 Eastern Ave.	C2V2;C4V2	16,100		Parking
201 Front St. E.	I2D7	1,997		Fire Station
281 Front St. E.	I2D5	9,578		Municipal Parking
381 Greenwood Ave.	C2V2;R2Z2	13,061		Public Works
25 Junction Rd.	C3V3	1,335		Leased to Maple Leaf Mills
400 Keele St.	C2V2	1,888		Municipal Parking
1116 King St. W.	I3D7	8,231		Public Works
1155 King St. W.	I3D7	37,169		A. Lamport Stadium Park
480 Lakeshore Blvd. E.	C3V3	69,907		Warehouse
973 Lansdowne Ave.	I1D2	1,207.7		Public Works
315 MacPherson Ave.	C2V2	1,291		Vacant
11 Ordnance St.	I3D7	2,285		Auto Repair
16 Ossington Ave.	C2V1	1,092		Detoxification Centre
10 Portland St.	I1D3	6,289		Municipal Parking
1115 Queen St. W.	I2D5	1,050		Health Centre
323 Richmond St. E.	I2D7	1,960		Municipal Parking
353 Richmond St. E.	I2D7	3,223		Municipal Parking
497 Richmond St. W.	I2D5	6,642		Public Works
133 River St.	I2D3	1,105		Maintenance Workshop
149 River St.	I2D3	1,467		Office-Retail
711 Runnymede Rd.	C2V2	2,428		Transit Yards
7 Station St.	C3V3	2,954		Walkway
30 St. Lawrence St.	I1D3	6,205		Auto Sales
53 Strachan Ave.	I2D5	17,437		Warehouse
160 Walnut Ave.	I1D3	4,542		Municipal Parking

(Continued). . .

Address	Zoning	Area (m^2)	Acres	Use
29 Wilton St.	C3V4	4,264		Parking
39 Wilton St.	C3V4	4,450		Parking
19 & 39 Wiltshire Ave.	C3V2	2,387		Hydro Transformer
s/s Unwin Ave.			10.94	
Langstaff Farm			618.6	
Concord Farm			107.3	

Source: City of Toronto

CITY OF TORONTO
PLANNING AND DEVELOPMENT DEPARTMENT

Economic Dev.
May 29, 1984.

To: City of Toronto Executive Committee

Subject: Consultants' Report Commenting on Proposed Economic Development Corporation

Origin: Executive Committee, Report No. 6, Clause 45, 1984. (c71exec84:56:44)

On Feb. 6, 1984, City Council referred the report of the Commissioner of Planning and Development (Jan. 26, 1984), dealing with the proposed economic development corporation, to the Executive Committee for further consideration. The Executive Committee transmitted the report to the Budget Review Group, which requested further details of the corporation's proposed mode of operation, prior to adopting recommendations.

Subsequent to these actions, my Department retained the firm of Woods Gordon, Management Consultants, to review the economic development corporation concept. Their report is now complete and copies are being provided to all members of Council.

Comments:

The Woods Gordon report concludes that a City-initiated economic development corporation could achieve significant benefits, consisting chiefly of job creation/retention impacts in the industrial sector of the City's economy. Although it is likely that underlying structural forces will continue to operate negatively on the City's industrial base, the proposed corporation can operate "on the margin" to minimize continuing decline. This objective is one which the report views as appropriate for the City to pursue. The report notes, however, that for maximum impact, the corporation should be introduced in parallel with other strategies, particularly in the areas of zoning review, assessment reform and promotion of the City as a location for industry. The report concludes that the proposed corporation offers advantages which could not be achieved by other means.

In terms of the basic objective of job creation and retention, the most significant function of the corporation will undoubtedly consist of initiatives aimed at increasing the supply of land and structures in industrial use. It is in this area that the Woods Gordon report modifies most significantly the proposals of my January 26 report. It should be emphasized that my original approach and the alternative put forward by Woods Gordon are both

means of addressing the supply problem. The consultants are in agreement with the ends pursued in my report, and concerned themselves primarily with the most effective means of achieving those ends.

Alternative Supply Encouragement Techniques

In this section, I will contrast a "Capital-Funds-Provider" model with an alternative which will be termed an "Asset-Leverage" model.

The Capital Funds Provider model was the basis of my January 26 report. Under this approach, the City would allocate a cash fund to the new corporation, which would then use these monies to participate jointly with private investors in projects aimed at creating industrial employment. After a specified period of time, the corporation would recover its investment from each project, which would continue from that point as a purely private venture. The corporation's funds would be re-cycled into further projects, so that the supply of industrial land and structures is enhanced on an ongoing basis.

The premise of the Capital-Funds-Provider model, the Woods Gordon team notes, is to seek investment opportunities within a "small window" of rates of return on investment. The window encompasses rates of return below those normally required by the private sector, but still above zero. Above the window lie opportunities which the private sector will undertake on its own (obviating the need for City action), and below the window lie opportunities requiring an ongoing subsidy from the City. While not excluding the possibility that potential projects within the window range exist, the report's authors note that a corporation with some experience in the area of attracting industrial uses to the City would best be able to identify such opportunities. Without such experience, the risk of falling below the targeted window range may be too great.

Accordingly, the Woods Gordon report puts forward the Asset-Leverage model as an alternative -- preferable in relative terms at least until the corporation has been in existence for some time, thereby acquiring hands-on experience. The Capital-Funds-Provider model is not excluded as a longer term possibility.

Within the Asset-Leverage approach, the corporation would make use of City-owned lands to encourage investment of private capital in job-creating projects. At least conceptually no capital funds would be allocated to the corporation by the City, and the proceeds of any lands sold would be used to acquire other lands. The corporation should be free to alter the composition of its

land portfolio, since opportunities to acquire properties more useful than those in its initial endowment will arise.

Without capital funds from City taxpayers, and with its land portfolio held intact over time (other than for compositional shifts), the proposed corporation would operate on a minimum-risk basis. It is this aspect of the Asset-Leverage model which led the authors of the Woods Gordon report to advance it as an alternative for consideration.

It is not, of course, sufficient that the Asset-Leverage model have minimum risk; it must also be capable of producing results. In order to examine the probability of such results, it is necessary to provide a somewhat detailed specification of the model. Consistent with their terms of reference, the authors of the Woods Gordon report outlined their alternative in rather general terms. However, during the period the report was in preparation, staff of the Planning and Development Deparment have given consideration to a more detailed model specification along the lines suggested in the Woods Gordon report. The next section outlines the results of this work.

Further Specification of the Asset-Leverage Model

As is recognized in the Woods Gordon report, many owners of land in areas zoned industrial are reluctant to commit their lands to industrial uses on long-term leasehold at rents consistent with industrial zoning. To do so would impair their flexibility to convert land to higher-paying uses in the event of re-zoning. Also, as a consequence of re-zoning expectations, land prices are frequently outside the range which industrial uses can pay, even on lands where such uses are the only ones currently permitted.

It is this problem which the proposed corporation could address, within the framework of the Asset-Leverage model. The corporation would be empowered to lease lands to industrial uses, at market rents consistent with the industrial zoning. That is, rents would be attractive to industry but not lower than is necessary to make their operation viable. Other leasehold terms would also be designed to attract industry, and in many cases this would likely require a long-term lease on the land. Consultation with specialists in real estate transactions will be required to determine the types of lease arrangements which will be attractive to industrial uses. Although placing encumbrances on land by long-term lease will in many cases reduce its value on paper, employment benefits will be secured in exchange. Ultimately, as the lease approaches expiry, land value will no longer be affected by the lease.

Under the approach outlined, private capital would be levered by the corporation's flexibility with respect to the leasing of land. Indeed, the division of functions would be clear. The City's corporation would provide land and the private sector would provide risk capital, in the form of structures, equipment and other improvements.

In many cases, properties will enter the corporation's portfolio with structures already present. In such cases, the corporation would seek a buyer for the structures as soon as possible, with the proceeds of sale being rolled over into additional land holdings. (This temporary capital-provider role should be allowed for in the legal powers of the corporation, as well as the possibility that in certain cases it will be advisable for the corporation to retain ownership of structures over a longer period; "standby" powers to engage in capital investment should therefore be provided for, which would also permit the Capital-Funds-Provider model to be used at a later time if evidence were to warrant this.) A buyer of the structure would continue paying land rent to the corporation over the leasehold period, and would either use the structure directly or lease it to others. In either case, uses in the structure would be subject to the approval of the corporation, and in cases where structures are themselves leased, the corporation should have some degree of control over the rents charged.

Based on a preliminary review of City-owned lands within the City, there do not appear to be many industrially-zoned properties which are both surplus to municipal requirements and free of encumbrances. However, the Langstaff and Concord jail farms outside the City constitute land holdings which qualify clearly as surplus to municipal needs and unencumbered by leases. The two farms currently produce minimal income. I would propose the allocation of a portion of the Langstaff and Concord lands to the new corporation, with the objective that they be rolled over as soon as possible into an industrial land portfolio within the City.

The City has recently initiated development options studies respecting both the Langstaff and Concord farms. These studies should provide, within a few months, a firm estimate of the properties' value. In the event that the studies conclude strongly against disposal in the short term, on the basis of high anticipated rates of return from holding, the proposed corporation should be empowered to borrow against eventual sale proceeds. This would permit the corporation to begin assembling its land portfolio within the City as soon as possible. To avoid creating interim cash flow requirements for the corporation, such borrowing should be on a deferred interest basis. If there are indeed high rates of return to be earned through continued holding of the

Langstaff and Concord properties, it would follow that future appreciation would offset the interest cost.

While the discussion above has focused on land leasing activities of the proposed corporation, other functions discussed in the Woods Gordon report will likely also be of importance. These functions would include corporation input into zoning by-law amendments, as may be needed to make particular development projects viable.

In summary, the proposed corporation operating on an Asset-Leverage model has the potential to achieve significant gains in the job creation area. At the time of writing this report, for example, a firm seeking a Metro location for its plant is seriously examining two sites in the City, each formerly used by an industrial firm which has since abandoned operations. Either site would offer significant advantages to the new firm, being close to an existing firm which is a supplier of materials. However, I am advised that due solely to the price expectations of the potential land vendors (based on re-zoning potential), the probability of a deal being struck does not at present appear encouraging.

The new firm concerned would employ over two hundred persons, and the situation described is similar to others which have arisen. If the proposed corporation were in existence it could dispose of lands currently in its portfolio to acquire one of the sites preferred by the new firm. (Bridge financing may be required if the new site must be acquired prior to completion of such disposal, and the corporation should be empowered to raise such financing on the capital market for short periods.) The newly acquired site would then be leased to the incoming firm at an industrial market rate. The industrial employer would provide the investment capital for plant and equipment, and would commence operations.

Conclusions:

At this stage, it is essential to obtain City Council endorsement of the basic concept of an economic development corporation operating to lever private investment on lands held in the corporation's portfolio. If that is done, other issues such as the composition of the Corporation's Board of Directors, the initial composition of its land portfolio and particular types of capital investment undertakings to be encouraged can be resolved while necessary legal work is going forward. Council endorsement of the basic concept will permit the City Solicitor to begin preparation of the private legislation required to authorize the corporation's establishment.

There is, however, one incidental matter arising from the Woods Gordon report on which I would like to comment now: the name of the proposed corporation. The report puts forward the name DEVTOR for consideration, but I feel this would be viewed by many as suggesting a multi-national conglomerate. I believe the corporation should have both a formal name (City of Toronto Economic Development Corporation would be appropriate), and an informal name which, in my view, should be CityJob.

Recommendations:

1. That Council endorse the concept of a municipal economic development corporation for the City of Toronto to be known formally as the City of Toronto Economic Development Corporation and informally as CityJob, endowed with a portfolio of City-owned lands to be retained for the purpose of levering job-creating investment, and possessing such additional powers as are outlined in this report.

2. That the City Solicitor be requested to report to the Executive Committee on a form of private legislation required to give effect to the concept outlined in Recommendation 1.

3. That I be requested to report further on the composition of the Corporation's Board of Directors, its initial land portfolio, and types of capital investment undertakings to be encouraged.

Stephen G. McLaughlin,
Commissioner.

PT/fs